

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**of the Charitable Gift Annuity Business**

**of**

**Northwest College of the Assemblies of God  
Kirkland, Washington**

**DECEMBER 31, 2004**

**Exhibit A  
Order No. G06-22  
Northwest College of  
The Assemblies of God**

**SALUTATION**

Seattle, Washington  
April 4, 2006

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building, Capitol Campus  
302-14<sup>th</sup> Avenue SW  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business (CGAB), an examination was made of the corporate affairs and financial records of the CGAB of the

**Northwest College of the Assemblies of God**

of

Kirkland, Washington

hereinafter referred to as "NWC" at its office, 5520-108<sup>th</sup> Avenue NE, Kirkland, WA 98083.

This report of examination is respectfully submitted showing the condition of the CGAB of NWC as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of the Northwest College of the Assemblies of God of Kirkland, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of the Northwest College as of December 31, 2004.



Patrick H. McNaughton  
Chief Examiner

April 4, 2006

Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2000 through December 31, 2004. The 2004 Annual Report reflected the balance sheet and statement of revenue and expenses of NWC as of May 31, 2004. (See INSTRUCTION No. 1)

The financial statements are presented on a consolidated basis for both NWC and the Northwest College Foundation. However, the scope of our examination focused only on the transactions and operations of the CGAB. NWC's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGAB reporting. The results of the examination are commented upon in the various sections of this report. In addition, NWC's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Kirkland office of NWC by examiners from the state of Washington.

## **INSTRUCTIONS**

The examiners reviewed NWC's CGAB Annual Reports as part of the statutory examination. This review was performed to determine if NWC completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that NWC's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

### **1. Reporting Requirements**

The balance sheet and statement of income and expenses sections of the 2004 Annual Report were not presented as of calendar year ending December 31; they were presented based on NWC's fiscal year ending May 31. NWC did not obtain prior permission from the OIC to prepare the Annual Report on its fiscal year. As a result, NWC was not in compliance with the OIC Annual Report Instructions.

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the

laws of its state of domicile, as well as such other financial material as may be requested,  
...

**To comply with RCW 48.38.010, NWC is instructed to develop and implement a system for accounting and reporting of its charitable gift annuity business to ensure compliance with the principles or practices prescribed or permitted by Chapter 48.38 RCW.**

## **2. Officers**

In accordance with the Bylaws, NWC has only one officer, the president, who is selected by the Board of Directors. However, NWC is subject to, and in violation of, the Washington nonprofit corporation act, Chapter 24.03 RCW.

RCW 24.03.125 requires that: "The officers of a corporation shall consist of a president, one or more vice presidents, a secretary, and a treasurer . . .", so NWC does not have all the officers required by the act.

**Pursuant to RCW 24.03.125, NWC is instructed to appoint a vice president, a secretary, and a treasurer and, if necessary, to appropriately revise any corporate documents covering such matters.**

## **COMMENTS AND RECOMMENDATIONS**

### **Annuity Contracts**

Eleven annuity contracts, or 73% of the total in-force contracts, were not signed by the annuitants; only a representative of NWC signed the contracts. NWC asserted that all of the annuity applications were both signed by the annuitants and a NWC staff person, and that only NWC signed the contracts because NWC is the only one responsible to pay the annuitants.

**It is recommended that every annuity contract should be signed both by the annuitant and a designated NWC staff person. Review of annuity contracts for accuracy and completeness should be performed by someone other than the designated staff person signing the contracts.**

## **ORGANIZATION PROFILE**

**History:** NWC (formerly known as Northwest Bible College, Inc.) was incorporated on July 18, 1952 under the laws of the state of Washington. NWC is an educational institution offering undergraduate and graduate degrees. It is under the control of the Alaska, Montana, Northwest, Oregon, Southern Idaho and Wyoming districts of the Assemblies of God.

**Territory and Plan of Operation:** On October 4, 1979, the OIC granted NWC a Certificate of Exemption to conduct a CGAB in the state of Washington. There were 15 in-force annuity contracts as of December 31, 2004.

**Total Net Assets:** NWC's total net assets as of May 31, 2004 were \$17,500,829. This amount included an unrestricted net asset of \$14,306,640. The minimum unrestricted net asset requirement was satisfied as of May 31, 2004 pursuant to RCW 48.38.010(6).

**Growth:** The growth of NWC for the past five years is reflected in the following schedules. All information was compiled from NWC's financial statements as of the fiscal years ending May 31.

**Schedule 1- Statement of Financial Position**

<b>Fiscal Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Total Net Assets</b>	<b>Total Net Assets Allocated Into:</b>		
				<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
<b>2004</b>	\$45,345,174	\$27,844,345	\$17,500,829	\$14,306,640	\$1,039,677	\$2,154,512
<b>2003</b>	44,046,982	27,150,742	16,896,240	14,057,199	821,851	2,017,190
<b>2002</b>	33,770,530	16,946,016	16,824,514	14,153,572	893,307	1,777,635
<b>2001</b>	31,501,898	13,974,859	17,527,039	14,824,873	1,030,395	1,671,771
<b>2000</b>	30,124,404	13,265,553	16,858,851	14,498,759	901,006	1,459,086

**Schedule 2 – Statement of Activities and Changes in Net Assets**

	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
Revenues and gains	\$17,369,219	\$15,595,021	\$13,852,951	\$13,780,906	\$12,522,821
Expenses	16,764,630	15,523,295	14,555,476	13,112,718	11,646,979
Increase (decrease) in NA	604,589	71,726	(702,525)	668,188	875,842
NA at beginning of period	16,896,240	16,824,514	17,527,039	16,858,851	15,983,009
<b>Net assets at end of year</b>	<b><u>\$17,500,829</u></b>	<b><u>\$16,896,240</u></b>	<b><u>\$16,824,514</u></b>	<b><u>\$17,527,039</u></b>	<b><u>\$16,858,851</u></b>

Number of gift annuity contracts at end of year	15	14	18	18	18
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**AFFILIATED ORGANIZATIONS**

Northwest College Foundation (the Foundation) is legally separate from, but under the direct control of, NWC. The Foundation was established on June 1, 1992 to secure, receive and administer gifts of money, real estate, and tangible and intangible property on behalf of NWC. The financial statements of NWC and the Foundation have been presented on a consolidated basis and transactions between these entities are eliminated upon consolidation.

## **MANAGEMENT AND CONTROL**

**Management:** Responsibility for the management and control of NWC rests exclusively with its BOD. The BOD is comprised of representatives from participating districts; certain individuals by virtue of their office; and some directors who are appointed by the BOD. Amendments to the Articles of Incorporation or the Bylaws may be made by a two-thirds vote at any regular or special business meeting of the BOD.

**Board of Directors (BOD):** The directors are:

Dr. Don Argue	Maxine Horn
Rev. Ted R. Boatsman	Rev. Dale Jackson
Rev. Duane E. Buhler	Dr. Kay Peng Khoo
Dr. Warren Bullock	Mr. Gary King
Rev. Dave Cole	Rev. Vernon J. Marks
Dr. Sallee J. Conn	Mrs. Edna Mae McClaflin
Rev. Don Detrick	Dr. Byron Perkins
Mr. Art Dickhoff	Rev. Boyd Powers
Dr. Chris Edwardson	Mr. George Reece
Rev. Keith Elder	Mr. David Rodli
Mr. Arne Filan	Rev. Robert D. Ross
Rev. John Fox	Rev. Mark Veristain
Rev. Robert J. Fox	Rev. Roy Welch
Rev. Doyle A. Fulkes	Rev. Leslie E. Welk
Rev. Paul Goodman	Rev. William Wilson
Dr. Prince Guneratnam	Rev. Dan York

**Officers:** In accordance with the Bylaws, the BOD elects the NWC's President. Don Argue is the elected president. (See INSTRUCTION No. 2)

**Tax Status:** NWC is a Washington State not-for-profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest:** NWC requires its directors and management staff to disclose any conflict of interest by signing a conflict of interest certificate. The president or chairman of the board reviews the certificates. The results of a review by the examiners of selected samples of conflict of interest certificates, disclosed that the directors and staff performed due diligence in disclosing potential conflicts of interest. No exceptions were noted.

## **CORPORATE RECORDS**

The BOD meets at least twice a year to discuss business which is pertinent to NWC. Minutes of meetings of directors approve and support NWC's transactions and events. No exceptions were noted.



### **STATEMENT OF ACTUARIAL OPINION**

A consulting actuary with Milliman, Inc., determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary affirmed he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that NWC's annuity contract reserves meet the requirements of RCW 48.38.020(3) of the Washington Insurance Code.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The assets of the separate reserve fund were physically segregated from the other assets of NWC as required by RCW 48.38.020(2). Total annuity investments as of December 31, 2004 were \$415,781, and consisted of cash equivalents and mutual funds. Investments were recorded at fair value.

### **SUBSEQUENT EVENTS**

There were no material events which impacted NWC's CGAB between the examination date and the last day of our field work.

### **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

## FINANCIAL INFORMATION

The following financial information summarizes the consolidated financial statements of NWC and the Foundation as of the end of its fiscal year, May 31, 2004. Financial information as of calendar year-end December 31, 2004, could not be produced and provided by NWC in a timely manner. (See INSTRUCTION No. 1)

### **Balance Sheet**

	<b>Balance Per Annual Report</b>	<b>Examination Adjustments</b>	<b>Adjusted Balance</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$2,151,264		\$2,151,264
Investments	8,169,082		8,169,082
Assets held in trust	3,638,821		3,638,821
CGA assets *	415,781		415,781
Other assets	30,970,226		30,970,226
<b>Total Assets</b>	<b><u>\$45,345,174</u></b>	<b><u>\$0</u></b>	<b><u>\$45,345,174</u></b>
<b><u>LIABILITIES</u></b>			
Trust obligations	\$2,657,072		\$2,657,072
CGA reserves *	331,027		331,027
Other liabilities	24,856,246		24,856,246
<b>Total Liabilities</b>	<b><u>27,844,345</u></b>	<b><u>0</u></b>	<b><u>27,844,345</u></b>
<b><u>NET ASSETS</u></b>			
Unrestricted	14,306,640		14,306,640
Temporarily restricted	1,039,677		1,039,677
Permanently restricted	2,154,512		2,154,512
<b>Total Net Assets</b>	<b><u>17,500,829</u></b>	<b><u>0</u></b>	<b><u>17,500,829</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$45,345,174</u></b>	<b><u>\$0</u></b>	<b><u>\$45,345,174</u></b>

\*The distribution of the annuity assets and statutory reserves are based on the Statement of Actuarial Opinion as of December 31, 2004.

### **Statement of Financial Activity and Changes in Net Assets**


	<b>Balance Per Annual Report</b>	<b>Examination Adjustments</b>	<b>Adjusted Balance</b>
Total revenues	\$17,369,219	\$0	\$17,369,219
Total expenses	16,764,630	0	16,764,630
Increase (decrease) in net assets	\$604,589	0	\$604,589
Net assets at beginning of year	16,896,240	0	16,896,240
Changes in net assets per examination	0	0	0
<b>Net assets at end of year</b>	<b><u>\$17,500,829</u></b>	<b><u>\$0</u></b>	<b><u>\$17,500,829</u></b>

### **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of NWC during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; and John Gaynard, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

  
\_\_\_\_\_  
Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

STATE OF WASHINGTON        }  
                                     }  
COUNTY OF KING            }

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of NWC's CGAB was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Orlando R. Gabriel  
Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 4<sup>th</sup> day of April,  
2006.

Colleen Jansen  
Notary Public in and for the  
State of Washington,  
Residing at Seattle.

